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RAMSAY HEALTH CARE LIMITED – 1H24 RESULTS RELEASE

Craig McNally: Good morning, everyone, and thank you for joining us today as we present our FY24 Interim Results. I'm Craig McNally and I'm joined by Martyn Roberts, our Group Chief Financial Officer.

Today we will provide an overview of our performance for the first six months of FY24 followed by an update on our Group strategic direction and outlook.

Before I begin, I would like to mention that in 2024 Ramsay Health Care celebrates our 60th anniversary. It's 60 years since Paul Ramsay opened a small private hospital in Sydney's northern suburbs and we've grown from there to become a leading Australian company and one of the largest private health care operators in the world.

I'm immensely proud of our achievements over the decades and grateful to the incredible teams past and present who have shared and driven our success and who deliver outstanding outcomes for our patients. As we pay tribute to Paul's incredible legacy we are looking forward to the exciting opportunities and possibilities ahead.

So turning to the result. Over the half we were pleased to see continued improvement in activity levels across all our regions with 5.4% growth in total hospital admissions. This, combined with annual tariff uplifts in indexation, drove revenue growth of 7.8% on a constant currency basis. While the activity mix continues to evolve in all regions, patterns are starting to normalise.

We made some progress agreeing new terms with payors over the half year and Ramsay will continue to push for further indexation increases from both government payors globally and private health insurers to ensure we are compensated for general and industry specific inflation incurred over the last few years.

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We have also made good progress accelerating a range of transformation programs across the Group to drive sustainable top line growth, productivity improvements and operating efficiencies. Some of these benefits are visible in today's result but there's also a lot more to do with focus on improving returns from all regions.

We are incredibly pleased with the outcome of the Ramsay Sime Darby sale process, which reflects the benefits of running a considered competitive process and our commitment to disciplined portfolio management.

Proceeds from the sale of RSD, which settled on 28 December, combined with our program to extend the funding group's debt maturities and establish a more orderly maturation profile, has strengthened the funding group's balance sheet.

We remain confident that increased activity levels, combined with indexation uplift, should drive earnings growth in FY24. We expect the result to be weighted to the second half, particularly in Europe, which is expected to return to its normal seasonality absent the smoothing impact of government support payments.

Turning to the results briefly and the headline statutory profits includes the net profit after tax of $618 million from the sale of RSD. The EBIT result from continuing operations was driven by improved earnings from Australia and strong growth from the UK region, offset by lower earnings from Europe and higher net financing charges.

The weakness in the Aussie dollar against the Euro and Pound during the half also impacted earnings. We've included results in both constant currency and local currency in the reporting pack.

The contribution from non-recurring items during the period was significantly lower than in the prior period, primarily due to a large profit on the sale of property in Europe in the prior year. Non-cash mark to market movements on interest rate swaps had an impact on net financing costs, swinging from a positive contribution of $22 million to a negative contribution of $19.6 million. Removing the impact of non-recurring items, EBIT increased 5% on the prior period and NPAT declined 3.1%.

The Board determines to pay a fully franked dividend of $0.40 per share, which is at the top end of our payout ratio range based on earnings, excluding the profit on the sale of RSD. This reflects our confidence in the underlying earnings momentum of the business. As I've said, earnings are expected to be weighted to the second half of the year and we would expect the full year dividend to reflect that.

Moving to the result in Australia. Overall, volume growth, combined with indexation from health funds, led to revenue growth of 6% for the half. During the period the team maintained a strong focus on managing operating costs and we are starting to see some normalisation of labour and supply price growth.

As foreshadowed, digital and data and cyber security OpEx combined was $21.8 million higher than in the prior period at $34.4 million. Excluding the increase in OpEx, EBIT grew by 7.8%.

Our focus on improving labour productivity has returned most metrics to pre-COVID levels. While sick leave and agency use have improved, both continue to fluctuate with outbreaks of COVID and other viruses in the communities.

Our investment in programs to advance our digital capabilities are expected to deliver further productivity benefits as they're rolled out more widely. Some of these innovations are being trialled in our new hospital in Epping in Melbourne that opened earlier this month, including a new clinical communications platform keeping our teams connected and improving productivity and patient safety.

Importantly, the business was successful in negotiating improved revenue indexation with several health funds and public payors during the half, with the full benefit to flow through in the second half.

We recognise that the private health care sector as a critical provider of infrastructure in this country needs to focus on remaining an attractive option for consumers in a challenging economic environment. However, to be able to continue to invest in delivering optimal outcomes for patients the sector needs to be financially sustainable.

Looking at key trends in activity in Australia, in the first half surgical and medical admissions continued to grow at rates above historical averages with particularly strong growth in rehab activity, reflecting above trend growth in orthopaedic surgery at some Ramsay facilities, new capacity and programs at some sites and also the closure of a number of standalone competitors.

After growth through COVID maternity has returned to pre-COVID trends of declining births. In this environment Ramsay has closed or consolidated maternity services where it makes sense.

While psych admissions were flat overall, psych patient days increased 4% over the prior period, reflecting an improvement in in-patient volume with day admissions per work day flat on the prior period but weaker compared to pre-COVID levels.

Turning to the investment pipeline in Australia, the Australian business continues to be purposefully extending its leading position in existing strongholds with greenfield and brownfield hospital developments.

On the back of higher construction costs, challenges in the construction sector, slower approval process times and higher interest rates, we've slowed down our pipeline of projects, reducing our full year development CapEx range by $40 million to $210 million to $260 million.

Projects set for completion in the second half including the first stage of our redevelopment at Lake Macquarie in New South Wales and an expansion of St Andrew's Hospital in Queensland. Work continues on the major expansion of Warringal Hospital in Melbourne with the first stage of the redevelopment, including three new wards, an ICU and new theatres recently opened.

The focus continues to be on developments at our major sites that strengthen our core hospital presence. To this end, during the half the Board approved a new greenfield short stay facility in south-west Sydney and a major expansion of the private hospital on the Joondalup site in Perth. These projects are expected to commence in the next six months.

In the out-of-hospital area we continue to make selective investments in our new and adjacent out-of-hospital services, including expanding our psychology clinic network to 20 sites.

As I've said, we continue to progress our digital and data strategy, which has multiple streams of work with the initial investment focused on building our foundations, improving efficiency and productivity and driving better outcomes for our patients, people and doctors.

During the half we invested $33.4 million in a range of projects, with $6.5 million of costs capitalised and the rest expensed. We now expect FY24 OpEx net of benefits to be slightly lower than the originally forecast in the range of $55 million to $65 million and CapEx in the range of $12 million to $18 million.

One area of focus is the development of our digital front door, the single entry into the digital Ramsay ecosystem for our patients, our doctors and our teams, which was piloted at the start of FY24 and has now rolled out to nine Ramsay hospitals.

In the second half of the year the project is on track to be expanded and rolled out to a further 21 sites with additional capability. This is in line with our approach to continue to iterate and mature the solution over time to cater for different therapeutic areas and patient experiences.

We continue to expect net OpEx to peak in FY25 at $70 million to $80 million and to become an overall net benefit to the business in FY28. CapEx associated with current projects is also expected to peak through FY25 and FY26 at between $70 million to $80 million.

As we have flagged previously, the final accounting treatment of major projects may change depending on vendor selection and accounting assessment at the time.

Turning to the outlook for the Australian business, Ramsay Australia has an unmatched portfolio of strategically located high quality hospitals that are attractive to clinicians and patients and provide valuable services for payors. This is evidenced by our strong performance relative to the industry in Australia where many of our competitors are losing money.

Our development program, combined with our focus in key out-of-hospital speciality areas, as well as our private emergency department strategy, are designed to enhance and protect our strategic position in the market into the future.

We will continue to drive sustainable operation efficiencies and productivity through our performance acceleration program, which is delivering improvements in cost control, revenue management and procurement programs.

In FY24 we expect EBIT to improve on the previous period, driven by mid-single digit volume growth and indexation combined with productivity improvements coming from labour management and cost saving initiatives.

Turning to the UK region, which reported a 114% overall increase in EBIT in local currency, with the acute care business continuing its strong its strong trajectory of improvement, and the changes being made at Elysium starting to flow through to improved earnings.

Ramsay UK, our acute hospital business, reported 28.5% revenue growth and an 84% increase in EBIT or 17.4% and 66.6% in constant currency respectively, driven by 10%

growth in admissions, a higher acuity mix, and the initial benefits of productivity and efficiency programs put in place over the last 18 months.

Elysium reported a significant turnaround in operating performance with 22.9% growth in revenue, and a 500% improvement in EBIT, or 12.3% and 472.8% respectively in constant currency, driven by a focus on improving occupancy levels and reducing costs. Occupancy increased 5 percentage points by period compared to the prior period, but remains below target for some services.

Reflecting the focus on recruitment and training, staff turnover declined, and agency costs as a percentage of labour costs improved by 6.6 percentage points compared to the prior period.

Turning to the outlook for the UK, Ramsay UK expects high single digit volume growth for the full year with ongoing growth expected in both NHS and private pay volumes. The business will continue to focus on mitigating ongoing inflationary pressures, particularly wage inflation.

We expect ongoing improvement in the performance of the Elysium business with the focus on lifting occupancy and further improving recruitment and training to reduce agency costs and employee turnover. The business will also continue to focus on repurposing and developing services to match demand with select investments in new facilities based on demand from stakeholders.

Turning to the European region, where Ramsay Sante saw 5.4% growth in hospital admissions, driven by 5% growth in France, 10% growth in the Nordics region, reflecting an improved performance from its acute hospital business. The Nordics also report a good growth in primary healthcare admissions. Case mix in France continues to impact revenue growth. Like the UK, the result benefited from a weaker Australian dollar however the result in Euros was impacted by Swedish Kroner weakness against the Euro.

The reliance of the French business on the government's revenue guarantee scheme declined during the period with payments reducing by 37% compared to the prior period, reflecting a return to more normal patterns of activity combined with the impact of modifications to the scheme in 2023.

As we have highlighted previously, the transition away from one-off compensation payments for COVID costs, wage increases, and inflation received over the last few years, has impacted earnings. 2023/24 annual tariff increase while reflecting inflation in the current year, did not factor in the compounding effect of cost inflation over the last few years hurting margins.

EBITDA in local currency declined 12.5% compared to the 73.5% or €109 million decline in total government support payments, and reflects the benefits of cost and other productivity measures the business has introduced over the last 12 months.

EBIT includes a positive contribution from non-recurring items of $7.8 million versus a positive contribution of $45.3 million, primarily related to a property sale in the Nordics in the prior period. After removing the impact of non-recurring items EBIT from the Nordics region actually increased 9%.

Turning to the outlook. Ramsay Sante is currently forecasting top line volume growth of low to mid-single digit growth in France, and higher in the Nordic region driven by increased acute activity and contributions from recently established facilities.

With the business transitioning from the smoothing effect provided by the revenue guarantee, Ramsay Sante's earnings will return to being weighted to the second half of the fiscal year. This reflects the return to pre-COVID seasonality in activity and includes the benefit of the tariff increase for the 2024/25 year, which will contribute to the final four months of the FY24 result.

The business remains in ongoing dialogue with payors, predominantly governments, regarding cost compensation for the 2023/24 year and the level of tariff increase for 2024/25. However, these discussions take place against the backdrop of significant pressure on government budgets.

The private sector is an important part of the French hospital services sector delivering approximately one-third of total hospital activity, including over 50% of surgical procedures and an estimated 40% of cancer treatments and engages with over 200,000 health workers. It is our firm belief that the French government must take action to ensure the industry's sustainability through appropriate compensation for the impact of inflation.

We remain focused on improving productivity and efficiency in the face of ongoing cost inflation that is expected to continue. The business will continue to optimise its hospital and clinic network in France, including investing in adjacent activities to strengthen its network and improve returns.

We have made further progress on our Ramsay Cares sustainability strategy over the half. We are heavily focused on developing our people and it was fantastic to see Ramsay Australia being recognised among the world's top six healthcare companies for women employees and, for the second year in row, Ramsay was named the number one health company for graduates.

This month, we welcomed 400 new graduates in our pathway program in Australia, on top of the two intakes that started in 2023. Participation in our Leadership Academies has grown across all regions. We continue to work towards our net zero greenhouse gas emissions goal and have now achieved 75% of our target to install 6.3 megawatts of renewable energy projects by 2026. All our regions are rolling out new ways to reduce emissions and waste. I will now hand you over to Martyn, to run through the financials in more detail.

Martyn Roberts: Thanks very much, Craig, and good morning, everyone. As Craig has outlined, total revenue from patients grew 13.8%, or 7.8% in constant currency terms. This was driven by a 5.4% increase in hospital admissions across the Group, as well as annul indexation increases and improved occupancy rates in Elysium. As you can see from the table in this slide, the growth was boosted by a weaker Australian dollar, in particular against the Euro, compared with the prior period.

Depreciation, amortisation, and impairments increased by 11.4% compared to the prior period. This primarily reflects currency movements, an increase in depreciation of rights of use assets in Ramsay Sante due to price indexation, and a turnaround in impairments reflecting the write-back of an impairment in the prior period in the UK.

We have outlined a number of non-recurring items in the pack, with the impact on EBIT and NPAT from continuing operations being significantly lower than the prior period at $6.9 million and negative $3.1 million respectively compared to positive contributions of $56.3 million and $34.4 million in the prior year. Stripping out the impact of all of these, Group EBIT from continuing operations increased by 5% and Group NPAT declined by 3.1%

Total interest expense increased 46.6% to $309.5 million, or by 38% in constant currency terms. This was at the top end of our forecast range, however, did include a negative non-cash mark to market on an interest rate swap in Ramsay Sante's debt of $19.6 million, compared to a positive impact of $22 million in the prior period. Removing the impact of mark to market movements, net financing costs increased by 24.4% to $289.9 million.

The effective tax rate for the half for continuing operations, was 33.2% compared to 31.2% in the first half last year. The rate was higher than last year primarily due to higher CVAE taxes in France and Ramsay Sante's loss before tax result given their lower company tax rate of 25%. The rate was lower than our forecast of approximately 36% due to the non-assessability of some non-recurring items, in particular the remeasurement of options to buy back minority interests in a primary care business in Denmark further to Ramsay Sante increasing its shareholding.

The key movements and changes in the balance sheet and cashflow relate to the sale of RSD and the repayment and termination of debt facilities with the proceeds of the sale. Foreign currency translation has also had an impact on values in the balance sheet since 30 June, in particular on intangibles and right of use assets.

Moving to leverage, on this slide we've given you the funding group net debt, interest cover and leverage ratios based on the calculation used by our banks and by Fitch.

In the first half, we focused on extending our Funding Group debt maturities and establishing a more orderly maturation profile. We have successfully extended each of the three $500 million tranches of our sustainability linked loan by 2.25 years and put in place a new six-year $500 million syndicated facility which was well supported by existing and new banks.

Importantly, the Funding Group's base rates will not change as a result of the new facilities due to our existing hedging programs. The Funding Group's weighted average margin on the facilities will be circa 10 basis points higher reflecting the longer tenor of the extended and new facilities.

The Funding Group weighted average cost of debt inclusive of margin at 31 December was 4.86% and that's excluding CARES. At 31 December 2023 approximately 93% of the Funding Group's debt was hedged at an average base rate excluding lending margin of 3.16%.

Turning to the Consolidated Group debt profile where you can see the only net movement of note, other than the impact of currency translation, was the repayment of facilities within the Funding Group. Ramsay Sante's AASB117 debt metrics in Euros are shown on the graph on the right, its leverage ratios did increase primarily due to lower earnings in the period.

The weighted average cost of debt for the Consolidated Group at 31 December 2023 was 4.88%, excluding CARES and appropriately 84% of the Consolidated Group debt was hedged for FY24 at an average base rate excluding lending margin of 2.64%.

Our FY24 net interest expense is now expected to be in the range of $590 million to $620 million, which includes an estimate of the non-cash negative mark to market movement for the full year of $33 million as well as some transactions costs associated with new Funding Group facilities.

Moving to capital expenditure, total spend across the regions was $409 million with slightly higher spend in Australia and an increase in the UK reflecting new facilities in both the acute business and Elysium, as well as some investment in repurposing facilities in Elysium.

We expect full year spend to be in the range of $0.8 billion to $1 billion, which is slightly lower than our previous forecast due to lower spend in both Australia and France. In light of rising interest rates, we are applying a more conservative approach to new projects, with our new hurdle rates being a post-tax IRR of greater than 12% and a post-tax cash ROIC of greater than 12% for brownfields other investments by the end of year 3, and green fields and acquisitions by the end of year 5. Both metrics have increased from the previous hurdle of being greater than 10%. The EPS accretion targets remain the same.

Ramsay will retain a disciplined approach to capital investment and we expect the balance sheet will be bolstered by our strong cash generation capability. With that, I now hand you back to Craig for some comments on the FY24 outlook and longer-term strategic direction.

Craig McNally: Thanks, Martyn. Turning to the FY24 outlook, we continue to expect further growth in Group earnings from continuing operations, reflecting mid-single digit top line growth driven by low to mid-single digit growth in activity levels combined with higher reimbursement rates. The results are expected to be weighted to the second half of the year.

Margin recovery will be slowed by ongoing cost pressures that are not fully reflected in reimbursement structures, combined with an increase in digital and data OpEx investment which is an important plank for our future growth.

Our immediate focus is on improving the performance and returns of the Australia and French hospital businesses and continuing the turnaround in the Elysium business. We will continue to review the business in the context of optimising shareholder returns, and we are actively assessing a range of strategies to unlock value and drive improved performance from our portfolio of assets.

On slide 21, there is some guidance around various metrics for FY24 which I will leave you to read. Turning to a slide that many of you will be familiar with, our long-term strategy. Our vision is to leverage our platform to be a leading healthcare provider of the future.

We believe the growth of the private healthcare industry will be underpinned by structural tailwinds, including technological and clinical developments, rising healthcare expenditure as a proportion of GDP, a growing and aging population and the associated rising incidents of chronic conditions, which all contribute to increasing healthcare costs to governments.

We believe private healthcare providers have a critical role to play in supporting the healthcare system in the future, and that establishing commercial solutions in partnership with governments will be an important part of that.

With Ramsay's unmatched network of strategically located facilities, world class healthcare teams, industry-leading investment in clinical excellence, trusted payor relationships, targeted push into new and adjacent services, and investment in technology, we feel strongly that we are uniquely positioned to benefit from these tailwinds and deliver long-term benefits to all stakeholders.

Our priority is to continue to leverage and strengthen our core hospital business through a series of transformation programs and by investing in a wider range of services that feed into and support our core, ultimately driving improved outcomes for patients.

Finally, I want to say thank you to our remarkable people, and our doctors, who demonstrate every day what it means to be people caring for people. I thank all the people who have worked with us over the last 60 years to make Ramsay what it is today. I will now open up for questions.

<u>Operator</u> Thank you. If you wish to ask a question, please press star one on your telephone, and wait for your name to be announced. If you wish to cancel your request, please press star two, and if you're on a speaker phone, please pick up the handset to ask your question. Your first question comes from David Lowe from JP Morgan. Please, go ahead.

<u>David Low, JP Morgan</u> Thanks very much, could I just start with just a clarification to the mid-single digit top line growth, is that pre-FX? Because frankly it implies a pretty small growth in the second half on a reported basis.

<u>Craig McNally</u> That's volume that we've hit.

<u>David Low, JP Morgan</u> Is it? It's not very clear. So, that's a volume number? So, mid-single digit volume growth is a full year expectation? I mean, it does say top line growth, if I remember correctly. Anyway, yes.

Craig McNally It's constant currency. Yes.

David Low, JP Morgan Okay, yes, good, get that one out of the way. The commentary on funding, if I could just get a quick overview of what your expectations are? One, if we could start domestically, and just take a little bit more of an understanding of what came through in the half-finished from better rates from health funds, and what that will contribute in the full year and ongoing?

If I could get you to comment a little on France, as well, and this news that there's €0.5 billion coming to the system as an additional funding, and what Ramsay Sante expects to get from that, please?

Martyn Roberts Yes, thanks, David. There will be no surprise, I'm not going to give you the specifics on funding increases. However, as we have said previously, and as I've said in my speech, the renegotiations that we've had with health funds in the Australian environment have been positive and we expect that to flow through, and our position has really been around recovery on the inflationary costs that we saw. We will have more negotiations coming up over the period as they go through their cycle and that will still be the intent we have, so I'm not going to quantify what those increases are.

In terms of France, yes, lots of negotiation from an industry perspective with governments, unfortunately there have been four health ministers in France over the last few months, so that has made continuity of those negotiations difficult. The extra money coming in to the system, now there's been speculation about that, we haven't seen anything concrete, however, we are in there fighting for our fair share of that, assuming that it's coming. Again, I can't quantify what that may be and whether there's definitely anything coming.

David Low, JP Morgan Okay, if I could just get one clarification there. I certainly don't expect you to give me a blow-by-blow account of the different funds.

Martyn Roberts That's good.

David Low, JP Morgan But I certainly, I think, in August the commentary was that some payors had rates that weren't acceptable, but what I'm really trying to get an understanding of, is how much benefit from better rates came through in the half we've just saw. The full six-month contribution of new rates, is it meaningful, or is that going to be lost in the detail?

Martyn Roberts It's not material in the first six months, you will see a lot more benefit in the second half. There was some, but not a huge amount.

David Low, JP Morgan All right, we will leave it at that, thank you very much.

Martyn Roberts You're welcome.

Operator Thank you. Your next question comes from Lyanne Harrison from Bank of America. Please, go ahead.

Lyanne Harrison, Bank of America Hi, can I just come back to David's question about mid-single digit top line growth driven by low to mid-single digit volume growth. I think, in the first half we saw very strong growth across most of – all of your regions. Why would you in your view that we can't maintain that similar growth in the second half as we saw in the first half on volumes?

Martyn Roberts Well we did it, I mean we did obviously benefit from trading over the last big COVID wave which was in July/August in the prior year. So that certainly was some of the benefit in terms of [inaudible] we had some of the growth that we had in the first half.

Then, you know, hard to predict volume growth and we're obviously conservative when we think of these things but that's our current view of where we think we're going to land for the full year.

Lyanne Harrison, Bank of America Okay. Then on your margin recovery, you're talking about ongoing cost pressures not fully reflected in reimbursement structures and David asked the question about reimbursement. But in terms of the cost pressures, where are you still seeing pressure?

I mean you spoke about normalisation of labour in some geographies so is the worst past us or are you still seeing pressure in some geographies and some segments?

Craig McNally I think the worst is past us but the wage inflation as you lock in ABAs for three year cycles, got to factor that in. We are seeing supply costs temper. So we're not seeing the increases that we did see. So it's about being able to forecast that going forward and getting reimbursement rates that reflect that.

Lyanne Harrison, Bank of America Okay. Thank you. Last question on CapEx, slide 18. Quite significant CapEx in France in the second half. What is that being spent on and can you talk the rationale behind that particularly given reimbursement rates or tariffs in France has been more challenging than other markets?

Martyn Roberts Well, most of the investment in France at the moment is maintenance CapEx and as you can imagine, we've got a very, very significant portfolio over there. There are some growth CapEx and we do have quite a strong strategy on our imaging, for some investment in MRI machines and those kind of things. But a lot of it is routine and compliance. It's just the phasing of spends really.

Lyanne Harrison, Bank of America Okay, great. Thank you.

Operator Thank you. Your next question comes from Gretel Janu from E&P. Please go ahead.

Gretel Janu, E&P Thank you. Good morning. I just want to start with the guidance of the stronger second half. So can you just give us some indications about how you've traded into January and February? Thanks.

Craig McNally Without being specific about it, we've certainly seen - January started slowly. I think we saw - and this is in the Australian context - we saw more leave early in January and then volumes have recovered well second half of January and into February. So, yes.

Gretel Janu, E&P Okay and so February has been strong? How would you characterise the month of February?

Craig McNally I'm not going into too much detail but it's not out of whack with where we thought we should be.

Gretel Janu, E&P Okay, understood. Then just on Australian margins. So previously you guided for flat margins for FY24. I guess does that still hold now and how should we think about margin improvement from here given your still cost pressures and expectations of digital costs then peaking into FY25? Thanks.

Martyn Roberts Yes, so I think what we said before, it still holds true. That any margin recovery that we could have through volume improvements and productivity improvement et cetera in Australia would be offset by the increased spend in digital and data. That still holds true.

Then beyond then, the spend obviously starts to - the year on year delta in the digital and data spend starts to flatten off and we start to get some of the benefits through. As we said, the benefits will outweigh the costs in FY28. So our expectation is that margins beyond this year should start to improve year on year.

Gretel Janu, E&P So even into FY25 given the fact that digital costs will peak in '25? You still are expecting margin improvement?

Martyn Roberts All other things being equal. There's a lot of water to flow under the bridge between now and then but yes.

Gretel Janu, E&P Great. Thanks. That's all I had.

Operator Thank you. Your next question comes from Steve Wheen from Jarden. Please go ahead.

Steve Wheen, Jarden Yes, good morning. Craig, I was just wondering if we could push a little bit further with the negotiations with the payors. Just with regards to the timing. So you've obviously completed with Medibank in December with the addition or the renegotiation.

Where are you with the rest of the insurers and is that going to be partial contributions from those payors during second half?

Craig McNally Yes, there's nothing imminent. We're probably in the back half of the calendar year before there's anything material. So yes, I think that's where it's at.

Steve Wheen, Jarden Okay. Then speaking with some of your unlisted competitors, they were talking about one-off payments. So it's not being built into the base for indexation in the future. Is that the basis that we should be looking at? Particularly as we start to contemplate FY25 as well?

Craig McNally Look, we won't talk about the details of that as a principle. I think when we've talked about other payer negotiations, getting one-off payment through the COVID period was something that crept in a little bit. But things have got to be in the base going forward.

Steve Wheen, Jarden Okay. I'm just curious as to your commentary in the outlook around strategies to unlock value. Is there any examples you could give us to help us contemplate what you're trying to flag here?

Craig McNally No, I won't - I mean certainly the - it's not a new exercise. But the Board continually reviews the business in terms of increasing shareholder returns, as I said in the speech. We're constantly looking at what are the strategies we could pursue to unlock that value?

I think the sale of RSD is a good example of that. We took a disciplined approach. We took our time to make sure we factored in all the considerations that we needed to. Then we executed and we got a great outcome on that.

They were the particular circumstances that sat around RSD. We'll look at the whole portfolio. There are different circumstances that sit in each of the regions and parts of the portfolio and we'll look at the best way to continue to increase shareholder returns and unlock that value without - and I won't be specific on it.

If and when we get to a position where we've made a decision, we'll make an announcement at that time.

Steve Wheen, Jarden Okay. Final question, just back to the Australian business, just curious as to the trend of day versus overnight stay and how that is evolving for you. How you can compensate for that shift towards day procedures with regards to the business going forward.

Craig McNally Yes, it's - I mean as we've said for many years, Steve, we do anticipate day procedure growth to be greater than inpatient activity. But what we've seen now is a bit of a flattening of that in terms of the proportion of our work that is undertaken on a day basis.

I think that's a little bit of where the catch up was as well. Now, how long that lasts for, not sure. But I think as you look well into the future, I think we'll still see faster growth in that less acute environment.

Steve Wheen, Jarden Great. Thanks, Craig.

Craig McNally We have to adjust our cost base accordingly, to whatever the service profile we have.

Steve Wheen, Jarden Understood. Thanks, Craig.

Craig McNally You're welcome.

Operator Thank you. Your next question comes from Mathieu Chevrier from Citi. Please go ahead.

Mathieu Chevrier, Citi Yes, good morning. Thanks for taking my questions. You said it in your remarks that many of your competitors are losing money. Does that change significantly you think the proportion of people who are losing money in the industry?

Because I guess the result is a tale of smaller operatives not making any money.

Craig McNally Yes, I think if you look at the public information, particularly around the non for profits, but others as well, I think you can do your own analysis on where that is. It's a much more acute position for the industry than it has been for a long time.

So I think - I don't want to be dancing on anyone's grave at all, but the industry needs and will swing from that position and as the industry improves, we're really well placed in terms of the portfolio of assets we have and the investments that we've made to continue to ride that upswing.

But certainly the industry across the board is suffering more than I've seen it in my career.

Mathieu Chevrier, Citi On the funding front, I mean is there anything you think - is there anything you believe the Federal Government could be announcing as far as the May budget that could help the industry?

Craig McNally Look, I think the - it's a good question. There's many detailed aspects in that and I'm not going to go into those because they're subject of discussions at an industry level with government.

But I think it's certainly obvious that payors have had an improved financial position coming through COVID. I'm not sure the government though can do a lot about the balance between insurers and providers. But recognising that it's the providers who are wearing the inflationary impacts and need to be compensated accordingly is important.

Mathieu Chevrier, Citi One final one for Martyn. Looking at Europe, it's been unusually difficult to forecast. Should we be taking first half EBIT and assume a 55%, 60% second half skew?

Martyn Roberts I'd be giving you guidance on EBIT if I told you that. What we have said is that the balance between first half and second half will revert back to pre-COVID type levels. Certainly in Europe, we do see a large difference between first half and second half. The same is true for the UK because of the July and August holiday period.

Clearly the reverse is true in Australia because of January but it's not the same extent. So that's why when you add it all up together, you do get a higher weight of profit in the second half than the first half.

Matthieu Chevrier, Citi Got it. Thanks very much.

Operator Thank you. Your next question comes from Saul Hadassin from Barrenjoey Capital. Please go ahead.

Saul Hadassin, Barrenjoey Capital Good morning, guys. Thanks for taking my questions. Martyn, just following up on that question as it relates to particularly the European region. If we do go back to pre-COVID, I think the last half we had normal earnings in Sante, it was a 30% / 70% EBIT split.

So I'm just trying to understand the contribution for the revenue guarantee this half which we weren't expecting. Is the assumption that that will continue to second half? In other words, volumes are not back to where they should be so you're still getting that revenue guarantee?

Is the 30% / 70% EBIT skew still a reasonable estimate particularly for France second half profitability?

Martyn Roberts That sounds quite extreme and you may - I don't know whether you were looking at FY19 which obviously had Capio in the second half? It's not that extreme. So 30% / 70% is way over the top.

In terms of revenue guarantee, it is continuing but we don't know in what form. So I think we've been through - they over - they went through a very complicated adjustment in 2023 by only applying 70% of the gap that we had.

But I mean it did reduce from first half '23, we had $93.8 million and this half just gone, it was $64.7 million. That's before you take into account all the other cost support activities that we have which were huge.

So as the volume continues to increase, we would expect the reliance on the French revenue guarantee scheme to continue to decrease. But that's by virtue of the fact that we're getting revenue by billings. So…

Craig McNally Yes, and I think it's not across the board either really. I think is an important point. Just some geographies, particularly regional areas, where recovery is slower than we've seen in the major metropolitan areas.

Saul Hadassin, Barrenjoey Capital Has the tariff been announced in France for the '24/'25 year?

Craig McNally No, it hasn't. So we're probably not optimistic it's going to be announced tonight either to get the - it commences on 1 March. So we - last year, I think we were sort of nearly April before we got the announcement. So we're probably not expecting something different here.

<u>Saul Hadassin, Barrenjoey Capital</u> Okay and can I just ask on the UK acute [inaudible] business, so very good revenue growth but only $10 million of Australian EBIT after leases. What's the issue there? Is it again, just the ramp in cost inflation and you're not getting sufficient NHS tariff to offset that?

<u>Martyn Roberts</u> Well, you know, we're coming back from a very, very challenging situation that we had during COVID and I think I wouldn't take it away from the great work that the team have done over there in terms of increasing the profitability.

Yes, when you apply your AASB16 accounting and all those kinds of things, you do end up with a reduced amount. But it's still a good contribution to the business going forward.

I think the other thing we want to highlight as well is the big turnaround in Elysium. For the UK segment, that's been extreme and the team have done a fantastic job turning that business around. So we're kind of back on track, probably year nine where we thought we would be for Elysium.

But we're certainly back on track now and massively reduced agency costs and occupancy coming right back again. So we're feeling pretty confident about the future in the UK.

<u>Saul Hadassin, Barrenjoey Capital</u> Thanks, Marty. Last one. Just with the operating cashflow. Pretty weak in the half. Effectively no net operating cashflow after lease costs, lease expenses.

Just wondering, is that - the working capital headwind in this half, will that unwind into second half completely? Are you expecting a much better operating cashflow result second half?

<u>Martyn Roberts</u> Yes, I did see a note this morning, Saul. I'm not sure where you got your number from. But yes, it wasn't a strong cashflow this half as the same half last year. Our operating cashflow is $208 million versus $441 million last year.

We have had some challenges in revenue collection from governments in particular, and also from some of the private health insurers. Particularly as we change and change rates with private health insurers, it takes a while to get through those.

So there have been a few challenges with that. But we're working on those programs going forward. There were a couple of provision releases as well within the result. You've seen the one with regards to our increase in shares in that business in Denmark that we talked about.

So that was sort of negative from a working capital perspective. We did spend $30 million extra in CapEx versus the prior year as well. So that's why you'd end up with a free cashflow position that's quite a bit different to last year.

Saul Hadassin, Barrenjoey Capital Understood, yes. Just for clarification, our cashflow deducts the repayment of lease principal obviously which is a rent cost. So it's ASB16 reversed. So you get a…

Martyn Roberts: I'd love to have a conversation with you and go through the detail of that at some stage, Saul, and understand it. It would be good.

Saul Hadassin, Barrenjoey Capital No problem, thanks.

Martyn Roberts Thanks.

Operator Thank you. Your next question comes from Craig Wong-Pan from Royal Bank of Canada. Please go ahead.

Craig Wong-Pan, Royal Bank of Canada Thanks. Just wanted to understand with the new hurdle rates of CapEx, that higher return that's required, does that potentially reduce the level of overall CapEx that you're thinking about spending?

Were there many projects previously in that 10% to 12% range which might not be approved now under the new rates?

Martyn Roberts It certainly does make it more challenging to find projects that we do allocate capital to but I think that's appropriate. I think when we were together on the Gold Coast, I think we said that we haven't really approved anything below 12% in the past six months anyway because we were conscious of the fact that our WACC had gone up and we're just formalising that now.

To make sure everyone is aware of the discipling we're approaching. The CapEx spend is naturally - you will have seen over the last three years, it's slowed down versus where we said it would be originally.

That's not just because of the hurdle rates, it's also just because of the slowness it takes to get business approvals. We've got, I think, three brown field projects under construction where our builders have gone bust. So you know, you've got to find a new builder and get those things going again.

So that's slowing down the program as much as anything else. So yes, it's on the margins and what it means is the teams have to go back and value engineer those projects and really sweat the asset as hard as possible in terms of what they're putting forward to make sure we can get things that do make those hurdle rates.

Craig and I reject way more that come across our desk than we approve and that will continue to be the case.

Craig Wong-Pan, Royal Bank of Canada Okay, thanks. Then just wanting to understand on cost inflation across your regions, I mean has that changed much over the past few months to six months since you last provided an update?

Martyn Roberts Which regime sorry, Craig?

Craig Wong-Pan, Royal Bank of Canada Just across different - if you could go by each geography. Like has there been much cost inflation changes for Australia, Europe, the UK?

Martyn Roberts So I mean, yes, certainly in the last few months. I mean by virtue of the fact that particularly in Australia, we haven't got EBAs locked in so wage inflation doesn’t change massively month to month or within short periods.

I think what we've seeing is supply costs, PPE for example, which is not a huge amount but is a good indicator, has been pretty much flat over the last 18 months to two years.

But off a number that's way higher than what it was pre-COVID. So the prices went up massively during COVID, then came down to a level that was still above COVID, and a flat line since then.

Same probably is true with prothesis. Things like electricity and gas are not a big part of our expense bill at all. I think they're less than 2% in Australia of our total expenses for example.

So it's mainly around wage inflation and there's not been a huge change in that since we last spoke.

Craig Wong-Pan, Royal Bank of Canada In the UK and Europe, has wage inflation - is that normalising now?

Martyn Roberts Depends what you consider normal really. But it hasn't changed much I would say, yes.

Craig McNally It hasn't…

Martyn Roberts Yes, I think that's probably the most important point. We don't see it going up in terms of an increase in those percentage increases.

Craig Wong-Pan, Royal Bank of Canada Okay, thank you.

Martyn Roberts Stabilised more than normalised would probably be the better word, yes.

Craig Wong-Pan, Royal Bank of Canada Great, thanks.

Operator Thank you. Your next question comes from Andrew Goodsall from MST Marquee. Please, go ahead.

Andrew Goodsall, MST Marquee Oh, thanks very much for taking my questions. Just on France, obviously, there's some short-term money on the table at the moment, but just wondering your views on the prospect of a long-term fix there in terms of funding and then in terms of your own strategy, are you doing work to progress how you're going to approach Europe in the longer term?

Craig McNally I'll start at a higher level. I mean I think there's a recognition within France of the need to increase funding in the health sector. I think that the reality is the French economy is under significant pressure, so to allocate that money to help means taking it off somewhere else and I think that's a real challenge for them.

So I'm not - I won't say the industry is working hard to put its case to government for not - as I mentioned in the speech, not only tariff increases from tomorrow onwards, but still a recovery of the inflationary cost that impacted the system over the last year or two. So look, I couldn't say I'm optimistic, however, I think there is a reality that the system still needs additional money.

In saying that, the French government through the last few years has been - has recognised the needs of the system, but that doesn't mean that it continues at that level given the pressures they've got through the economy. Then what we're doing, and the team and France have done a great job in managing cost and looking at structural cost reduction and we'll continue to do that, France particularly and I know I'm going to say and the Nordics. The rollout of their digital strategy continues.

It's certainly started at a different level from Australia, so the impact is not anticipated to be as great in terms of investment in the short term. But they are all initiatives that are trying to position the business differently and in a better position moving forward.

Andrew Goodsall, MST Marquee Okay, thank you. Maybe just a couple for Martyn. Just the first one, actually, it's just a bit of mischief by me, the insurers [inaudible] have got a habit of holding back claims ahead of a rate increase, so and I'm not saying that you do that, but can we expect second-half selection to be a bit better and maybe is that - maybe the rates have come up and a little bit with some renegotiations?

Martyn Roberts Oh, I would say that we're focused on increasing our claims, but it's not by virtue of reversing what you just said. But we are focused on working capital absolutely, yes.

Andrew Goodsall, MST Marquee Yes, I mean it's a...

Craig McNally The claim related when the person was admitted, not to when you sent the bills.

Martyn Roberts Yes.

Andrew Goodsall, MST Marquee Okay, just a coincidence then. The second one was the drag from the new hospital opening. I know it's probably going to be pretty small, but just trying to balance that up [inaudible]?

Martyn Roberts I think we previously said it's about a one percentage-point drag on EBIT margins this year.

Andrew Goodsall, MST Marquee Yes, okay, [inaudible] and turning around sort of FY'25 - '26 ish?

Martyn Roberts Well, as I've said earlier, it takes five years for a greenfield to really hit it's straps, so it'll be in a loss-making position for its first couple of years, yes.

Andrew Goodsall, MST Marquee Yes, okay. So it really is '26. The final one from me, just a bit of - just understanding sort of November - December, we saw the APRA data yesterday. It seemed a little weaker there. There was a comment to us that COVID did have a little bit of an impact in November - December, so just - in Australia, just trying to get whether you noted that?

Craig McNally Yes, look, it was certainly an increased impact, but it wasn't that material. I think we struggle with the APRA data all the time as we talk about just the timing in some of that data. I think the APRA data is probably a little clouded in terms of benefits paid, where the member rebates are sitting in the APRA data as well.

Andrew Goodsall, MST Marquee Yes, it's probably more the case there's a few quite small headwinds there that probably reverse in the second half perhaps? Yes. Thank you very much.

Craig McNally You're welcome.

Operator Thank you. Your next question comes from David Stanton from Jefferies. Please, go ahead.

David Stanton, Jefferies Morning, team, and thanks very much for taking my question. Just a follow-up on Saul's previous question, just want to understand first-half, second-half, get a bit more granular in terms of the cash flow profile that we should be expecting. Is there anything really to point out in terms of second-half cash flow expectations that - please?

Martyn Roberts Nothing in particular I can give you with that other than as I said, we have had some issues with cash collections. We are really focused on improving that through the second half. I would be loath to give you any kind of target or number that we are improved by.

David Stanton, Jefferies Sure. I guess my second and final question, in previous sort of result commentary, you've talked to some clinicians in Australia perhaps not working as hard as they used to pre-COVID, given the activity that we've seen or the activity growth that we've seen, what would be your comments now? Do you think the doctors are working as hard as they were pre-COVID? I would be interested on your views on that and what does that mean for the longer term as well.

Craig McNally Okay, yes, thanks, David. Let me just clarify. What we've seen is - and I think continue to see, less work after hours, so less evening operating theatre lists, less weekends. However, we are - as our volume has increased, we are seeing more of that work done on a routine Monday-to-Friday basis.

So I'm not going to say that the doctors are working as hard, but I think what we have is - and this is a longer-term issue for the system really and we talked about it for a number of years as well is that the generational change in the doctor profile and work-life balance comes into it and that was accelerated through COVID, means that you need more doctors to service not just the same demand, but the increasing demand.

So that was the focus of - for us and I think for the industry. Then making sure that we are as efficient as possible so doctors can get through more volume of work in a period of time. So my comment was not a criticism of doctors not working hard, it was just the reality I think of the way that we see the work coming through and when doctors are wanting to work.

David Stanton, Jefferies Understood. No, I never said the doctors aren't working hard. I know two doctors who worked very hard. But I guess my question then as a follow-up is how do you attract more doctors then on a longer-term view? I know this is a qualitative question, but I'm interested in your views; how do you outcompete your peers? Thanks.

Craig McNally Look, going back to the fundamentals of portfolio investment, so what doctors are looking for generally is that their patients are getting great outcome and experience, that they're able to operate [inaudible] to operate in a general sense. They're able to operate in an efficient environment where they are comfortable that the quality of the nursing staff and other clinical staff in a hospital environment again to make sure that their patient gets a great outcome.

The investments we make in - not just in physical infrastructure, but clinical infrastructure, in clinical technology, the training and development of our people all makes it a better environment for doctors. We obviously have some magnet hospitals.

It is just keep on doing that, that's been what we've done for a long time and we keep doing that. I mean I think we are in a position that we've got - as I said in the speech a couple of times, we've got an outstanding portfolio of hospitals, particularly across the regions, but if we focus on Australia and France, we've got the premier portfolios in those markets.

We need to keep investing in making sure that they keep improving. We continue to concentrate on building more theatres, our involvement in teaching and research, we certainly punch above our weight in many aspects, but none more so than our involvement in teaching and research which again, makes us a place that doctors are keen to work.

The investment that we are making in digital technology and the transformation process of that part of the business - well, not just that part of the business, but the business to be focused on patient experience, doctor experience, making it easy for us - for people to deal with us through the introduction of more digitised processes and technology, all that investment comes together to allow us to recruit more doctors than the rest of the industry.

David Stanton, Jefferies Thank you.

Operator Thank you. Your next question comes from Laura Sutcliffe from UBS. Please, go ahead.

Laura Sutcliffe, UBS Oh, hello. Thanks for taking my questions. Just one on the UK to start with, please. If you look at the topline growth there, so you're expecting high single-digit volume growth in the second half of the year, is that sustainable after the end of FY24 in your view? The elective waiting lists there are still pretty long?

Craig McNally Yes, we think it's a multi-year position. The waiting list, I think the official number - the latest official number for waiting lists in the NHS is about 7.5 million people. The unofficial number is significantly higher than that and I think all sides of politics have given reduction in waiting lists a priority. So we're not concerned that the UK election changes that position. So we're confident that we'll continue to see volume increases for the periods to come.

Laura Sutcliffe, UBS Okay, thanks and then just to Elysium. You've spoken about your continued confidence in the turnaround there. Margins still don't look to be that far above zero, so just maybe you could talk to your confidence levels that they can get into the high single digits beyond. Where do you think it ultimately lands for Elysium?

Martyn Roberts Well, the EBIT margin for Elysium in the first half was 5.4% I think and so that's a half where we were improving during the half, I would say. So our expectations for the second half a higher again than that and there's really no structural impediment to that business getting back to the same margins it was experiencing during - just before we bought it in the first six months after we acquired by virtue of the fact that of all the companies, we've actually had reimbursement rates that have actually reflected the inflation, not only this year, but in prior years as well.

So that business, the agency spend that we talked about before, if you remember, that was a massive issue last year. It was up almost towards 30% of our personnel costs I think in January and it was down as low as 12% and they've recruited over 1,500 new employees over the last 12 months, so they've done a fantastic job in stabilising the workforce.

Occupancy is up six percentage points on the prior year and that's just the last final thing now is just filling those one or two extra beds in each facility which having a stable workforce allows us to do from a safety perspective. So we've got every confidence that they can continue to drive improvements, not only into the second half but beyond that as well.

Laura Sutcliffe, UBS All right thanks and then maybe one final one on Australia. Just on costs. How close is your use of agency staff at this point to what you think is optimal?

Craig McNally It's actually pretty low anyway. So it's not materially above what it would be. You're talking a handful of per cent.

Martyn Roberts 3% to 4%.

Martyn Roberts Yes for agency. So it's not a massive issue for us. You want some agency to get flexibility to deal with peaks and troughs in activity.

Laura Sutcliffe, UBS All right, that's it from me. Thank you.

Craig McNally You're welcome.

Operator Thank you. You have a follow up question from Steve Wheen from Jarden. Please go ahead.

Steve Wheen, Jarden Thank you. Sorry, quite a dull question for Martyn on the minority interest. I'm trying to just reconcile why that is a positive contribution after historically always being a share of the - backing out the share of the profits from the French business.

Martyn Roberts It's always dull questions for me isn't it. It's mainly because Ramsay Sante made a loss in the period.

Steve Wheen, Jarden So that's the - there's no other factors that go into that? That is reflecting.

Martyn Roberts No, I mean there are some very small JVs and things that we've got in Australia with radiologists et cetera but the lion's share of that number is all in relation to Ramsay Sante.

Steve Wheen, Jarden Yes, okay thank you.

Operator Thank you. There are no further questions at this time. I will now hand back to Mr McNally for closing remarks.

Craig McNally Okay, thanks everyone for being available and participating. We'll close it there. Thank you.

Operator That does conclude our conference for today. Thank you for participating. You may now disconnect.

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